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January 6, 2015

Charter School Board  
Indiana Cyber Charter School  
7508 Beechwood Centre Road  
Avon, IN 46123

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Alerding CPA Group, Independent Public Accountants, for the period July 1, 2013 to June 30, 2014. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of Indiana Cyber Charter School as of June 30, 2014, and the results of its operations for the period then ended, on the basis of accounting described in the report.

In addition to the report presented herein, a Supplemental Audit Report for Indiana Cyber School was prepared in accordance with the guidelines established by the State Board of Accounts.

The Financial Statements and Independent Auditors' Report are filed in our office as a matter of public record.

*Paul D. Joyce*  
Paul D. Joyce, CPA  
State Examiner

# **INCYBER**

**The Indiana Cyber Charter School**

**FINANCIAL STATEMENTS**

**JUNE 30, 2014 AND 2013**



# INDIANA CYBER CHARTER SCHOOL, INC.

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JUNE 30, 2014 AND 2013

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
INDIANA CYBER CHARTER SCHOOL  
Indianapolis, Indiana

We have audited the accompanying financial statements of INDIANA CYBER CHARTER SCHOOL, INC., which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; and the *Guidelines for the Audits of Charter Schools Performed by Private Examiners*, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of INDIANA CYBER CHARTER SCHOOL, INC. as of June 30, 2014 and 2013, and the changes in net assets, functional expenses, and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

## **Other Report**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The other report listed in the foregoing table of contents is presented for purposes of additional analysis and is not a required part of the financial statements in accordance with accounting principles generally accepted in the United States.

*Attending CPA Group*

November 24, 2014

# INDIANA CYBER CHARTER SCHOOL, INC.

## STATEMENTS OF FINANCIAL POSITION JUNE 30, 2014 AND 2013

|  | <u>2014</u>        | <u>2013</u>       |
|--|--------------------|-------------------|
| <b><u>ASSETS</u></b>                         |                    |                   |
| <b>Assets:</b>                               |                    |                   |
| Cash   | \$ 5,006           | \$ 53,533         |
| Grant receivable                             | -0-                | 64,574            |
| Prepaid expenses                             | <u>89,573</u>      | <u>175,541</u>    |
| Total current assets                         | 94,579             | 293,648           |
| <b>Equipment, net</b>                        | <u>117,738</u>     | <u>-0-</u>        |
| Total assets                                 | <u>\$ 212,317</u>  | <u>\$ 293,648</u> |
| <br><b><u>LIABILITIES AND NET ASSETS</u></b> |                    |                   |
| <b>Liabilities:</b>                          |                    |                   |
| Current maturities of long-term debt         | \$ 396,022         | \$ 164,241        |
| Accounts payable                             | <u>266,685</u>     | <u>93,959</u>     |
| Total current liabilities                    | 662,707            | 258,200           |
| <b>Long-Term Debt</b>                        | <u>564,879</u>     | <u>237,841</u>    |
| Total liabilities                            | 1,227,586          | 496,041           |
| <b>Net Assets - Unrestricted</b>             | <u>(1,015,269)</u> | <u>(202,393)</u>  |
| Total liabilities and net assets             | <u>\$ 212,317</u>  | <u>\$ 293,648</u> |

See accompanying Notes to Financial Statements.

# INDIANA CYBER CHARTER SCHOOL, INC.

## STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2014 AND 2013

|                                      | <u>2014</u>           | <u>2013</u>         |
|--------------------------------------|-----------------------|---------------------|
| <b>Revenues and Support:</b>         |                       |                     |
| Public revenue and support           |                       |                     |
| State funding                        | \$ 1,299,017          | \$ 202,692          |
| Contributions and grants             | <u>326,489</u>        | <u>93,022</u>       |
| Total public revenue and support     | 1,625,506             | 295,714             |
| Forgiveness of debt                  | -0-                   | 163,594             |
| Other income (expense), net          | <u>2,993</u>          | <u>488</u>          |
| Total revenue and support            | <u>1,628,499</u>      | <u>459,796</u>      |
| <b>Expenses:</b>                     |                       |                     |
| Program services                     | 1,503,342             | 504,128             |
| Management and general               | 471,096               | 104,898             |
| Fundraising                          | <u>466,937</u>        | <u>53,163</u>       |
| Total operating expenses             | <u>2,441,375</u>      | <u>662,189</u>      |
| Change in net assets                 | (812,876)             | (202,393)           |
| <b>Net Assets, Beginning of Year</b> | <u>(202,393)</u>      | <u>-0-</u>          |
| <b>Net Assets, End of Year</b>       | <u>\$ (1,015,269)</u> | <u>\$ (202,393)</u> |

See accompanying Notes to Financial Statements.

# INDIANA CYBER CHARTER SCHOOL, INC.

## STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2014 (WITH COMPARATIVE TOTALS FOR 2013)

|                              | <u>Program Services</u> |                  |                | <u>Management and</u> |              | <u>2013</u>  |
|------------------------------|-------------------------|------------------|----------------|-----------------------|--------------|--------------|
|                              | <u>Grants</u>           | <u>Academics</u> | <u>General</u> | <u>Fundraising</u>    | <u>Total</u> | <u>Total</u> |
| <b>Labor and Benefits:</b>   |                         |                  |                |                       |              |              |
| Salaries                     | \$ -0-                  | \$ 335,041       | \$ 46,750      | \$ 7,791              | \$ 389,582   | \$ 134,900   |
| Employee benefits            | -0-                     | 144,963          | 20,227         | 3,372                 | 168,562      | 27,195       |
| Total labor and benefits     | -0-                     | 480,004          | 66,977         | 11,163                | 558,144      | 162,095      |
| <b>Other Expenses:</b>       |                         |                  |                |                       |              |              |
| Course materials/supplies    | 14,650                  | 263,054          | 49,007         | -0-                   | 326,711      | 111,290      |
| Professional services        | 85,089                  | 236,621          | 321,710        | -0-                   | 643,420      | 124,085      |
| Instructional services       | -0-                     | 6,232            | -0-            | -0-                   | 6,232        | 56,246       |
| Community relations          | 25,150                  | -0-              | -0-            | 430,108               | 455,258      | 64,182       |
| Instructional staff training | 24,689                  | 37,862           | -0-            | -0-                   | 62,551       | 32,654       |
| Travel and entertainment     | -0-                     | 28,587           | -0-            | 12,252                | 40,839       | 31,872       |
| Rent                         | -0-                     | 29,089           | 4,059          | 676                   | 33,824       | 24,000       |
| Computers and equipment      | 19,198                  | 20,525           | 3,090          | 1,324                 | 44,137       | 15,388       |
| Insurance                    | -0-                     | 16,429           | 1,825          | -0-                   | 18,254       | 13,467       |
| Information technology       | 5,000                   | 110,318          | -0-            | -0-                   | 115,318      | 11,869       |
| Depreciation                 | -0-                     | 26,613           | 7,604          | 3,802                 | 38,019       | -0-          |
| Interest                     | -0-                     | 50,493           | 14,427         | 7,213                 | 72,133       | -0-          |
| Office expenses              | -0-                     | 624              | 87             | 14                    | 725          | 6,726        |
| Food services                | -0-                     | 6,553            | -0-            | -0-                   | 6,553        | 3,310        |
| Utilities                    | -0-                     | 14,602           | 2,037          | 340                   | 16,979       | 2,660        |
| Miscellaneous                | -0-                     | 624              | 87             | 14                    | 725          | 40           |
| Dues and fees                | -0-                     | 1,336            | 186            | 31                    | 1,553        | 2,305        |
| Total expenses               | \$ 173,776              | \$ 1,329,566     | \$ 471,096     | \$ 466,937            | \$ 2,441,375 | \$ 662,189   |

See accompanying Notes to Financial Statements.



# INDIANA CYBER CHARTER SCHOOL, INC.

## STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2013

|                              | <u>Program Services</u> |                  | <u>Management<br/>and<br/>General</u> | <u>Fundraising</u> | <u>Total</u> |
|------------------------------|-------------------------|------------------|---------------------------------------|--------------------|--------------|
|                              | <u>Grants</u>           | <u>Academics</u> |                                       |                    |              |
| <b>Labor and Benefits:</b>   |                         |                  |                                       |                    |              |
| Salaries                     | \$ -0-                  | \$ 116,014       | \$ 16,188                             | \$ 2,698           | \$ 134,900   |
| Payroll taxes and benefits   | -0-                     | 23,388           | 3,263                                 | 544                | 27,195       |
| Total labor and benefits     | -0-                     | 139,402          | 19,451                                | 3,242              | 162,095      |
| <b>Other Expenses:</b>       |                         |                  |                                       |                    |              |
| Course materials/supplies    | 3,120                   | 91,477           | 16,693                                | -0-                | 111,290      |
| Professional services        | 30,961                  | 31,082           | 62,042                                | -0-                | 124,085      |
| Instructional services       | -0-                     | 56,246           | -0-                                   | -0-                | 56,246       |
| Community relations          | 25,000                  | -0-              | -0-                                   | 39,182             | 64,182       |
| Instructional staff training | 23,175                  | 9,479            | -0-                                   | -0-                | 32,654       |
| Travel and entertainment     | -0-                     | 22,310           | -0-                                   | 9,562              | 31,872       |
| Rent                         | -0-                     | 20,640           | 2,880                                 | 480                | 24,000       |
| Computers and equipment      | 7,641                   | 6,208            | 1,077                                 | 462                | 15,388       |
| Insurance                    | -0-                     | 12,120           | 1,347                                 | -0-                | 13,467       |
| Information technology       | 3,125                   | 8,744            | -0-                                   | -0-                | 11,869       |
| Office expenses              | -0-                     | 5,784            | 807                                   | 135                | 6,726        |
| Food services                | -0-                     | 3,310            | -0-                                   | -0-                | 3,310        |
| Utilities                    | -0-                     | 2,288            | 319                                   | 53                 | 2,660        |
| Miscellaneous                | -0-                     | 34               | 5                                     | 1                  | 40           |
| Dues and fees                | -0-                     | 1,982            | 277                                   | 46                 | 2,305        |
| Total expenses               | \$ 93,022               | \$ 411,106       | \$ 104,898                            | \$ 53,163          | \$ 662,189   |

See accompanying Notes to Financial Statements.

# INDIANA CYBER CHARTER SCHOOL, INC.

## STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2014 AND 2013

|   | <u>2014</u>       | <u>2013</u>      |
|---|-------------------|------------------|
| <b>Cash Flows from Operating Activities:</b>  |                   |                  |
| Change in net assets  | \$ (812,876)      | \$ (202,393)     |
| Adjustments to reconcile change in net assets<br>to net cash used in operating activities |                   |                  |
| Depreciation  | 38,019            | -0-              |
| Forgiveness of debt   | -0-               | (163,594)        |
| Changes in operating assets and liabilities:  |                   |                  |
| Grant receivable  | 64,574            | (64,574)         |
| Prepaid expenses  | 85,968            | (175,541)        |
| Accounts payable  | 395,716           | 93,959           |
| Net cash used in operating activities   | <u>(228,599)</u>  | <u>(512,143)</u> |
| <b>Cash Flows From Investing Activities:</b>  |                   |                  |
| Capital expenditures  | <u>(155,757)</u>  | <u>-0-</u>       |
| <b>Cash Flows from Financing Activities:</b>  |                   |                  |
| Borrowings under long-term debt   | 521,880           | 565,676          |
| Payments under long-term debt   | <u>(186,051)</u>  | <u>-0-</u>       |
| Net cash provided by financing activities   | <u>335,829</u>    | <u>565,676</u>   |
| Net increase (decrease)   | (48,527)          | 53,533           |
| <b>Cash, Beginning of Year</b>  | <u>53,533</u>     | <u>-0-</u>       |
| <b>Cash, End of Year</b>  | <u>\$ 5,006</u>   | <u>\$ 53,533</u> |
| <b>Non-Cash Financing Activities:</b>   |                   |                  |
| Reduction of accounts payable through note payable<br>to former vendor                    | <u>\$ 222,990</u> | <u>\$ -0-</u>    |

See accompanying Notes to Financial Statements.

# INDIANA CYBER CHARTER SCHOOL, INC.

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### Description of Organization

Indiana Cyber Charter School, Inc. ("IN Cyber"), formed in April 2012 with operations beginning in February 2013, is a public charter school headquartered in Avon, Indiana with academic facilities throughout the state. IN Cyber offers students and families a chance to customize their education using advanced technology, highly qualified teachers and intensely personalized instruction with a dynamic, interactive curriculum that satisfies, challenges, and engages thousands of students across the state.

The significant accounting policies followed by IN Cyber in the preparation of its financial statements are summarized below:

#### Basis of Presentation

Net assets, support, revenue and expenses are classified based on the existence or absence of donor-imposed restrictions. Unrestricted net assets are net assets not subject to donor-imposed restrictions and are, therefore, available to support the general operations of IN Cyber. All net assets of IN Cyber and the changes therein are classified and reported herein as unrestricted net assets.

#### Revenue Recognition and Contributions

Revenues and support are reported as increases in unrestricted or temporarily restricted net assets based upon donor-imposed restrictions, if any. IN Cyber records donor-restricted contributions whose restrictions are satisfied in the same reporting period as unrestricted support and revenue.

#### Functional Expenses

Expenses are functionally classified as Program Services, Management and General, and Fundraising. Classifications are based on cost allocations determined by IN Cyber's personnel.

#### Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts in the financial statements and notes to the financial statements. Actual results could differ from those estimates. Significant estimates employed in preparation of IN Cyber's financial statements include depreciation methods, useful lives of equipment and the allocation of functional expenses.

# INDIANA CYBER CHARTER SCHOOL, INC.

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

### Equipment and Depreciation

Purchased property and equipment are recorded at cost. Items donated are recorded at fair market value on the date of donation. Costs of improvements are capitalized and costs of repairs and maintenance are expensed as incurred. Depreciation is recorded over the estimated useful lives of the assets at three years utilizing the straight-line method.

Depreciation expense was \$38,019 for the year ended June 30, 2014.

### Income Taxes

IN Cyber is exempt from Federal and state income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding state law. Accordingly, no provision has been recorded for Federal or state income taxes.

Management of IN Cyber evaluates all significant tax positions to ensure compliance with exempt purpose of the Organization as required by U.S. GAAP, including consideration of any unrelated business income tax. As of June 30, 2014, Management does not believe IN Cyber has taken any tax positions that are not in compliance with the exempt purpose of IN Cyber. IN Cyber's Federal and state tax returns remain open and subject to examination beginning with the tax year ended June 30, 2013.

### Subsequent Events

Subsequent events have been evaluated through November 24, 2014 which is the date the financial statements were available for issuance (Note 6).

## 2. GRANT RECEIVABLE

IN Cyber recognizes all material conditional or unconditional promises to give as grant revenue. Promises to give that are expected to be collected in future years are recorded at their net present value.

The grant receivable of \$64,574 at June 30, 2013 was due from one grantor and has been collected by IN Cyber. This grant was funded on a cost reimbursement basis.

# INDIANA CYBER CHARTER SCHOOL, INC.

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

### 3. LONG-TERM DEBT

Long-term debt at June 30, 2014 and 2013 includes the following:

|   | <u>2014</u>       | <u>2013</u>       |
|---|-------------------|-------------------|
| Unsecured note payable to former vendor; 0%, payable in monthly installments of \$49,503 commencing November 2014 through October 2015. | \$ 594,033        | \$ 402,082        |
| Unsecured note payable to vendor; 12%, interest only payments through November 2015 at which point the principal is due.                | 38,277            | -0-               |
| Unsecured note payable to vendor; 12%, interest only payments through November 2015 at which point the principal is due.                | <u>328,591</u>    | <u>-0-</u>        |
|   | 960,901           | 402,082           |
| Less current maturities   | <u>396,022</u>    | <u>164,241</u>    |
|   | <u>\$ 564,879</u> | <u>\$ 237,841</u> |

Annual maturities of long-term debt at June 30, 2014 are as follows:

| Year Ending     |                   |
|-----------------|-------------------|
| <u>June 30,</u> |                   |
| 2015            | \$ 396,022        |
| 2016            | <u>564,879</u>    |
|                 | <u>\$ 960,901</u> |

### 4. OPERATING LEASE

Prior to 2014, IN Cyber leased its administrative office and four (4) academic facilities throughout Indiana under the terms of month-to-month leases requiring monthly payments aggregating \$3,600. During 2014, the Organization terminated three (3) of the academic facility leases and as of June 30, 2014, leases its remaining facilities at a monthly rate of \$1,350. Total operating lease expense was \$33,824 and \$24,000, for the years ended June 30, 2014 and 2013, respectively.

# INDIANA CYBER CHARTER SCHOOL, INC.

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

### 5. CONCENTRATION OF CREDIT RISK

#### Cash

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash.

#### Grant Receivable and Support and Revenue

At June 30, 2014 and 2013 and for the years then ended, 100% of IN Cyber's public support and revenue were from one (1) grantor.

### 6. SUBSEQUENT EVENTS

#### Purchase of Land and Buildings

In August 2014, IN Cyber entered into a Purchase Agreement to purchase land and buildings in Sullivan County, Indiana for \$1 and perform repairs as outlined in the Purchase Agreement. The closing is expected to be no later than January 2015.

#### Settlement

In September 2014, the Organization entered into a settlement agreement with a former vendor regarding non-payment on a promissory note and invoices for curriculum services. The agreement specifies a settlement requiring IN Cyber to pay \$594,033 in monthly installment of \$49,503 over twelve (12) months commencing in November 2014. The affects of this settlement have been recognized retroactively as of June 30, 2014 (Note 3).

# INDIANA CYBER CHARTER SCHOOL, INC.

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

### 7. FINANCIAL CONDITION

During the year ended June 30, 2014, IN Cyber has an additional decrease in net assets of \$1,015,269. In order to address this issue, Management and the Board of Directors have developed a number of strategies to return the Organization to profitability and to a positive cash flow position, as follows:

- IN Cyber had a significant increase in the number of students enrolled for the 2014 – 2015 school year. 1,168 students were enrolled in August 2014 as compared to 242 students in the prior year.
- As a result of the increase in enrolled students, the Organization anticipates a 350% increase in state funding for the 2014 – 2015 school year.
- With the large increase in state funding, the Organization anticipates paying off all outstanding debt obligations with current and former vendors (Note 3) prior to the end of fiscal year 2015. Additionally, IN Cyber expects overall expenditures to normalize in the current year due to the Organization having substantial start-up cost in prior year.
- As discussed in Note 6, the Organization entered into a Purchase Agreement to purchase land and buildings in Sullivan County, Indiana. This will give the Organization a physical presence in the State of Indiana as well as collateral in which the Organization may obtain financing against in the future.

As a result of these and other operating and fundraising actions, Management and the Board of Directors believe the Organization will have positive cash flow in fiscal 2015 and beyond.

OTHER REPORT



# **INDIANA CYBER CHARTER SCHOOL, INC.**

OTHER REPORT  
JUNE 30, 2014 AND 2013

## **FINANCIAL CONDITION**

The report presented herein was prepared in addition to another report prepared for the Organization as listed below:

Supplemental Audit Report of The Indiana Cyber Charter School, Inc.